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## Japan

**Post:** Tokyo

### **Japanese New Forest Management System to Increase Log Production**

**Report Categories:**

Wood Products

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**Report Highlights:**

Japan's Forestry Agency is targeting a domestic wood supply increase from 30 million cubic meters in 2017 to 40 million cubic meters by 2025. The Government of Japan (GOJ) has allocated approximately 120 billion yen (\$1.1 billion) each year for the Forest Management Project, which supports thinning and selective logging operations. The new Forest Management System authorizes local governments 1) to allocate profitable forestland to motivated and capable forestry operators when the private owner does not manage the forestland and 2) to manage private forestland that is not profitable. To cover the operational costs for local governments, GOJ developed the Forest Environment Tax to collect an estimated 60 billion yen annually beginning in 2024.

Keywords: JA9098, Forest Environment Tax Transfer, Domestic Forestry Support Programs

## General Information:

The Government of Japan (GOJ) introduced the new Forest Management System that authorizes local government to conduct thinning operations on unidentified and unprofitable forestlands. In order to cover the excess costs in addition to the existing Forest Management Project, GOJ will collect the Forest Environment Tax from each Japanese household, and will distribute them as a Forest Environment Tax Transfer to local governments.

During the 2013 United Nations Climate Change Conference in Warsaw (COP19), GOJ announced that Japan aimed to achieve a 3.8 percent cut in greenhouse gas (GHG) emissions by 2020 versus 2005 levels, and 2.7 percent would be from “thinning” operations. The goal of the Forest Management Project then became to increase GHG absorption by at least 2.7 percent compared to 2015 level through removing woody biomass from Japanese forestland. In order to achieve this goal, Japan needs to conduct “thinning” on about 520,000 hectare of forestland annually. These thinning operations include thinning and selective logging, planting, construction of forest road networks, and wildlife and pest control. Wood from the thinning operations is used as lumber, engineered wood, fuel wood, or others.

GOJ increased the budget allocation for the Forest Management Project by 1.5 percent to 122 billion yen in JFY 2019, as shown in Table 1. In the last four fiscal years, when the Forestry Agency has surpassed its Forest Management Project general budget, they have requested extra funds from the supplementary budget, between 12.5 and 31 billion yen (Table 1). In 2016, the total area conducted thinning operations was 440,000 hectare (320,000 hectare of private forest and 12,000 hectare of national forest), which produced 8.23 million cubic meters of wood, about 30 percent of total domestic wood production (27.1 million cubic meters). Among this, 5.76 million cubic meters of wood was produced from private forestland, including 2.95 million cubic meters for lumber, 0.3 million cubic meters for poles, and 2.51 million cubic meters for wood chip and fuel wood.

**Table 1: Budget Allocation for Forest Management Project (unit: million yen)**

	JFY 2016	JFY 2017	JFY 2018	JFY 2019
from General Budget	120,286	120,313	120,313	122,107
from Supplemental Budget	17,066	31,000*	12,500	18,211
Total Budget	137,352	151,313	132,813	140,318

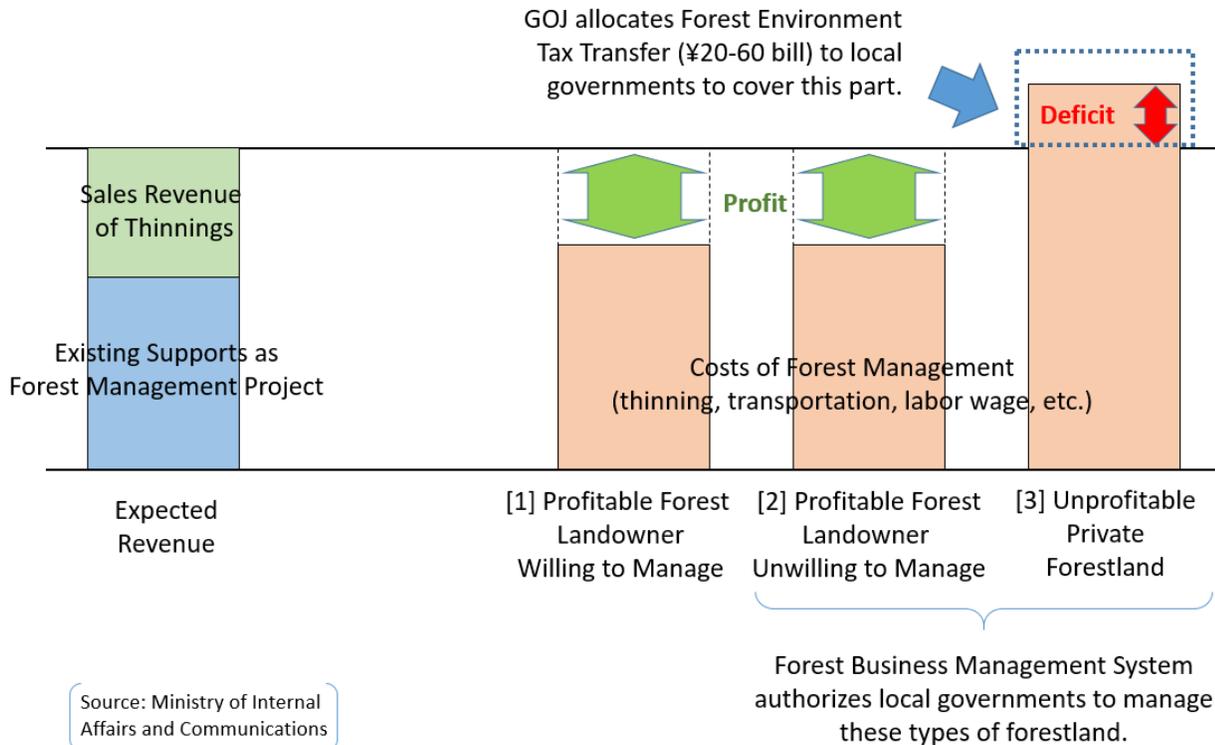
Note: \* GOJ increased supplemental budget due to restoration from Kumamoto Earthquake.

Japanese forest landownership is small and fragmented—there are 830,000 forest landowners and 90 percent of them own forestland smaller than ten hectares. The Forestry Agency has attempted to enhance the global competitiveness of the forestry sector. However, a major challenge has been lack of clarity in ownership of forestland and an unwillingness to manage forestland by some owners.

To address this problem, Japan’s Diet approved the Forest Business Management Act on May 25, 2018. This entered into force on April 1, 2019, and established the Forest Business Management System. The Act addresses unclear forestland ownership by establishing procedures for local governments to adopt responsibility for the management of untended forestland. To this end;

1. The new system requires local governments to provide guidance to forest owners on how to manage their forests, such as when to plant and harvest trees.
2. The act authorizes local governments to manage forests when owners do not.
3. The act authorizes local governments to allocate profitable forestland to motivated and capable forestry operators when the private owner does not manage the forestland. ([2] of Figure 1)
4. The act authorizes local governments to manage private forestland that is not profitable. ([3] of Figure 1)

**Figure 1: Conceptual Chart of Revenue and Cost of Thinning Operation**

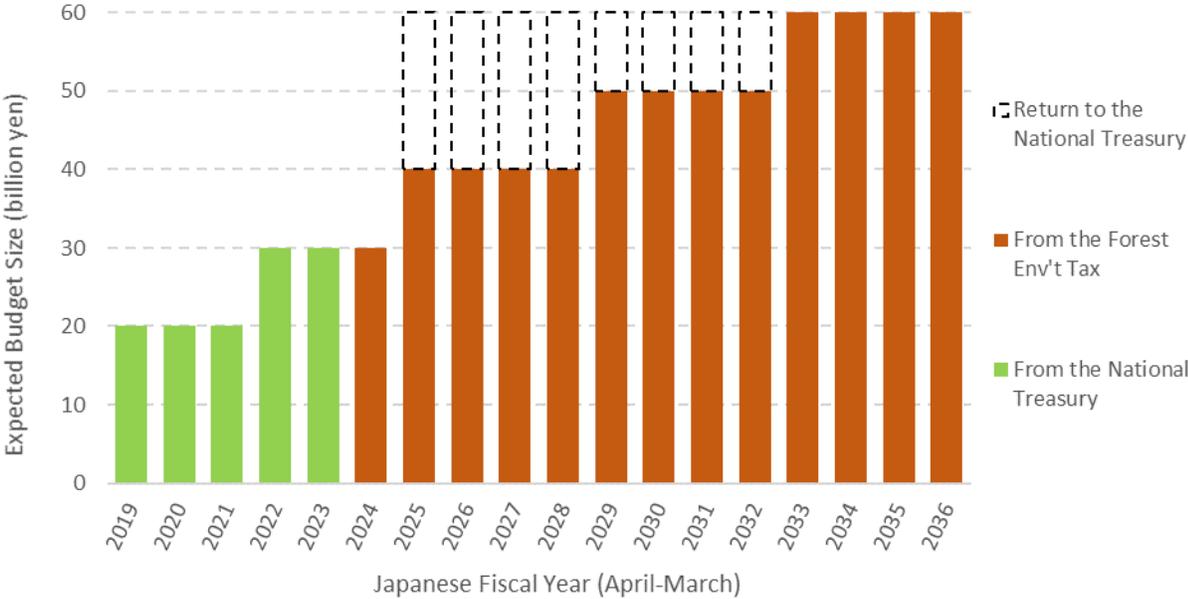


The Forest Management Project did not cover the economic deficit of the thinning operations on unprofitable private forestland (see Figure 1-[3]). The Forestry Agency estimated the cost for local governments to manage unprofitable forestlands to be 50-60 billion yen annually. In order to cover these deficits, the Diet approved to establish a new special-purpose tax called the Forest Environment Tax on February 27, 2019. This tax will go into effect in April 2024, imposing a 1,000 yen (about \$9) per capita annual surcharge on the top of residential tax<sup>1</sup>. Because 60 million people pay residential tax, GOJ estimates a collection of approximately 60 billion yen (about \$545 million) per fiscal year. After collecting the tax, national government will distribute the funds to local governments (Forest Environment Tax Transfer).

<sup>1</sup> The current ¥1,000 surcharge on individual residential tax designed to finance reconstruction from the 2011 Great East Japan Earthquake and tsunami ends in the end of March 2023. The Forest Environment Tax will replace this Reconstruction Tax.

Though the tax collection begins in JFY 2024, local governments are able to collect up to 20 billion yen of the Forest Environment Tax Transfer in JFY 2019, with funds borrowed from national treasury. This will increase 10 billion yen every three to four years until it reaches 60 billion yen in JFY 2033, as depicted in Figure 2 (the [Forestry Agency's](#) budget plan). GOJ will use excess tax collections beginning in JFY 2024 to reimburse the national treasury in full. The Forestry Agency is planning to increase the budget size as expand thinning activities on unprofitable forestland.

**Figure 2: Forest Environment Tax Transfer Plan**



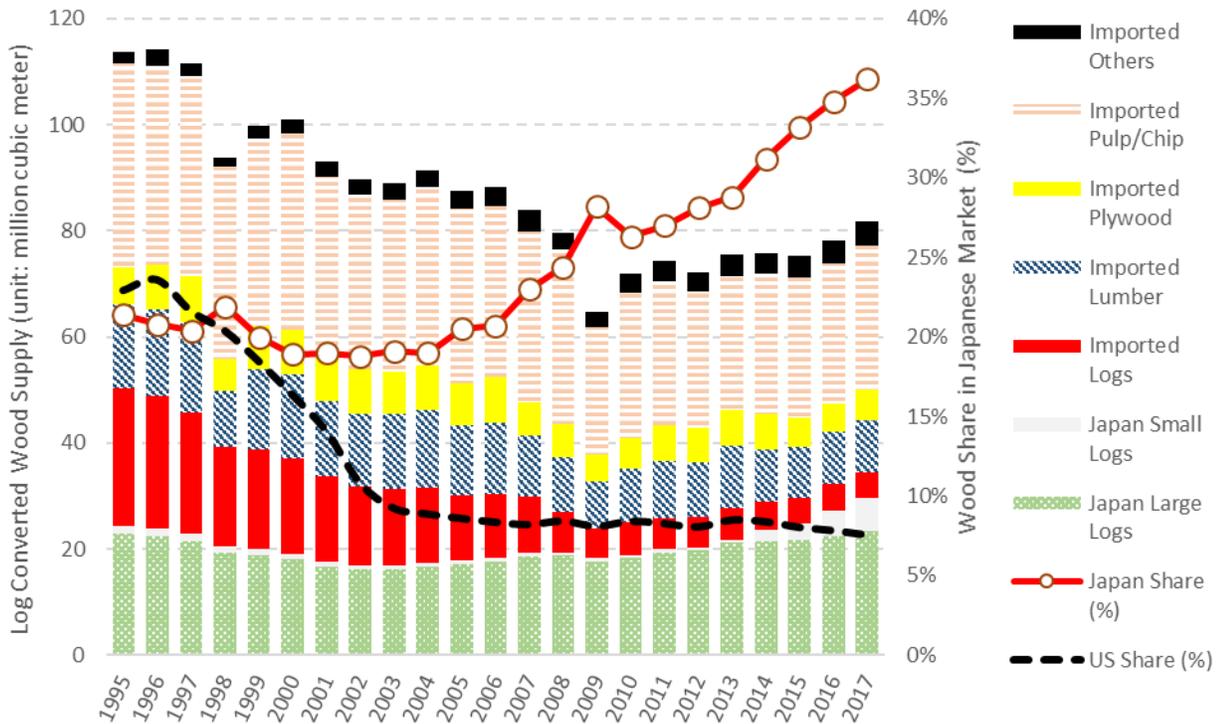
Source: Forestry Agency

The Forestry Agency's target is to increase the supply of domestic wood from 30 million cubic meters in 2017 to 40 million cubic meters by 2025. The Forestry Agency has launched multiple programs to enhance the wood processing sectors and expand wood products market. For example, GOJ allocates \$39 billion yen (\$357 million) for the Competitiveness Enhancement Program for Plywood, Sawn Wood, and Laminated Timber from the JFY 2018 supplemental budget. This program provides resources to develop forest road networks, modernize wood processing facilities, and expand the wood products market. GOJ also allocated \$24 billion yen (\$219 million) for the Turning Forestry into Growing Industry Comprehensive Project from JFY 2019 general budget. This program develops the supply chain, introduces efficiency machinery, develops forest roads, and promotes JAS-graded solid wood (e.g., sugi (Japanese cedar) dimension lumber) and Cross Laminated Timber (CLT). The total allocation of funds in support of the Japanese forestry and wood processing sectors in JFY 2019 is 466 billion yen (\$4.24 billion). Please see Ministry of Agriculture, Forestry and Fisheries (MAFF) budget report ([JA9046](#)) for detailed information.

As shown in Figure 3, Japan consumed about 110 million cubic meters of wood products in the mid-90s. The consumption fell to 65 million cubic meters in 2009, but gradually increased to approximately 80 million cubic meters in 2017. Japan imported \$1.44 billion of wood products and wood pulp from the

United States in 2018, including 1.7 million cubic meters (\$523 million) of logs, 525,744 metric tons (MT) (\$520 million) of wood pulp, 835,837 MT (\$173 million) of coniferous wood chips, and 242,707 cubic meters of softwood and hardwood lumber (\$165 million).

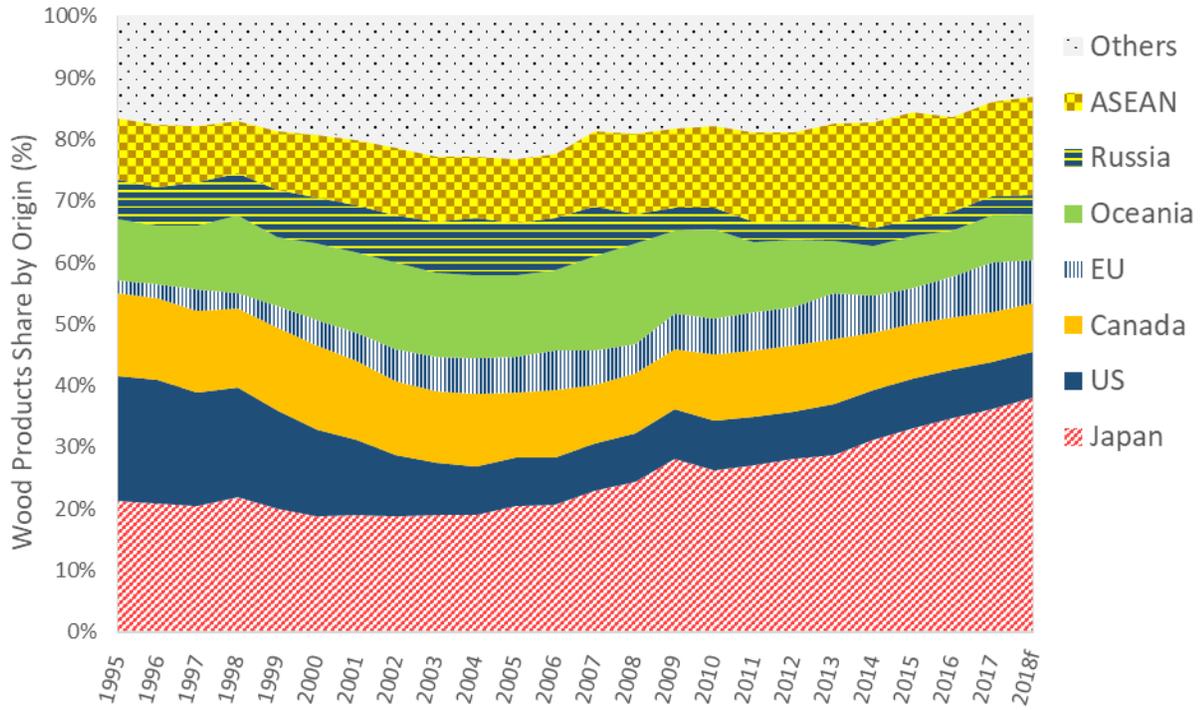
**Figure 3: Japanese Wood Supply (Log-Converted)**



(Source: [MAFF](#))

As shown in Figure 4, Japan has increased the ratio of domestically sourced log production (i.e., self-sufficiency rate of wood) especially since the beginning of this century. The self-sufficiency rate increased from 18.8 percent in 2002 to 36.2 percent in 2017. The U.S. wood products market share fell from 24 percent in 1996 to 9 percent in 2003, during a period of economic stagnation and a decline in new housing construction. U.S. market share has since remained relatively steady, holding at 8 percent in 2017.

**Figure 4: Share of Japanese Wood Products by Country of Origin**



Note: FAS/Tokyo estimates based on trade statistics from the Forestry Agency's [Wood Products Supply and Demand](#).